UNITED
NATIONS

DP

Governing Council
of the
United Nations
Development Programme

Distr.
LIMITED

DP/1993/BFC/L.2/Add.1
14 June 1993

ORIGINAL: ENGLISH

BUDGETARY AND FINANCE COMMITTEE
Fortieth session
1-18 June 1993, New York
Item 5 of the agenda of the Budgetary
and Finance Committee

ADOPTION OF THE REPORT OF THE BUDGETARY AND FINANCE COMMITTEE TO THE GOVERNING COUNCIL

Draft report of the Budgetary and Finance Committee

Rapporteur: Ms. Anna-Karin HOLM-ERICSON (Sweden)

CHAPTER II. United Nations Population Fund

1. For consideration of agenda item 5, the Budgetary and Finance Committee had before it the following documents:

Biennial budget estimates for administrative and programme support services for the 1994-1995 biennium (DP/1993/35);

Annual financial review, 1992 (DP/1993/36);

Audit reports (DP/1993/37);

Report of the Advisory Committee on Administrative and Budgetary Questions (DP/1993/38);

Report of the Executive Director on proposed revisions to the Financial Regulations of UNFPA (DP/1993/63).

2. Complementary information on matters of interest to the Budgetary and Finance Committee was also made available.

3. Before elaborating on the budget proposals for administrative and programme support services (APSS), the Executive Director mentioned briefly the financial status of UNFPA and its income prospects. She commented that UNFPA's regular

resources income in 1993 was estimated at $238 million, or roughly the same as that in 1992. However, she pointed out that this estimate included expected contributions from the United States for 1993 and onwards. For the 1994-1995 biennium, UNFPA had projected total resources of $606 million, comprising regular resources of $576 million and multi-bilateral funds of $30 million. This included an anticipated contribution from the United States to regular resources of $50 million in 1994 and $50 million in 1995.

4. Concerning the APSS and programme expenditures in 1992-1993, the Executive Director said that while the level of UNFPA expenditures was modest in 1992, UNFPA was able to deliver its programmes, as well as cover overexpenditures of $5.5 million incurred in the 1990-1991 biennium. Carryovers of regular resources from 1992 into 1993 were $33.6 million which had resulted from prudent planning, savings realized in the APSS budget, unexpected gains in contributions as a result of favourable exchange rates, income from procurement services performed by UNFPA, and delays in programme implementation which occurred due to political and environmental factors.

5. As a result of steps taken during the current biennium to keep administrative expenditures at a minimum, UNFPA expected to realize savings of at least $7.0 million on the administrative expenditures for 1992-1993.

6. Regarding the 1994-1995 APSS budget proposal, the Executive Director drew attention to the fact that the Secretary-General had requested that UNFPA participate in the process of restructuring of the United Nations system by reducing its senior management establishment. Consequently, the UNFPA budget proposal for 1994-1995 included a reduction in the level of three senior-level posts at headquarters. The budget also included proposals to establish a Country Director post in Eritrea, to add 35 new local field posts, to redeploy two headquarters posts to the field and to reclassify six Country Director posts from P-5 to D-1 and six International Programme Officer posts from P-3 to P-4. The Executive Director mentioned that it was with some reluctance and difficulty that UNFPA proposed the downgrading of some of its senior staff at headquarters. She, therefore, hoped that the Council might, in the near future, reconsider reinstating the posts at their former levels, particularly as the Fund's responsibilities and financial resources increased.

7. In order to ensure that proper accountability systems were in place, the Executive Director mentioned that the Fund intended to continue to strengthen the finance and administrative capacities of the field-office network. This would entail, inter alia, the further implementation of the Fund's management information system (MIS) strategy, specifically, to provide its field establishment with an upgraded computer environment that would ensure a more effective and useful monitoring of project budgets and programme delivery; and the continued implementation of the Fund's programme for staff training and development, focused on field activities.

8. In concluding her introduction, the Executive Director commented that the proposed APSS biennial budget amounted to $120.1 million (gross) and $113.1 million (net), taking into account income credits of $7.0 million to be applied to the budget. Thus, the ratio of the proposed APSS budget to total UNFPA resources of $606 million in 1994-1995 was 19.8 per cent on a gross basis

(18.7 per cent net), which compared favourably with the ratio of the previous biennium of 21.9 per cent on a gross basis (20.6 per cent net).

9. The Director of the Division for Finance, Personnel, and Administration (DFPA) provided additional information pertaining to documents DP/1993/36, 37 and 63. Document DP/1993/36 contained the annual financial review of UNFPA and of its trust funds and presented the Fund's financial position as at the end of the year 1992. Document DP/1993/37 presented the corrective actions taken by UNFPA in response to the recommendations of the United Nations Board of Auditors in its report on UNFPA Financial Statements for the biennium ended 1991 (A/47/5/Add.7), as well as the status of funds of executing agencies for the year ended 31 December 1991. Document DP/1993/63 submitted to the Council for its consideration and approval new financial regulations concerning authorization for procurement and for cost-sharing arrangements.

10. The Director, DFPA, highlighted the Fund's financial situation in 1992, noting that total income amounted to $238.2 million and total expenditures to $193.6 million, which resulted in an excess of income over expenditure of $44.6 million. Programme expenditures constituted 78.0 per cent of the total expenditures, or $151 million, whereas expenditure on headquarters and field office administration amounted to $42.6 million. As at 31 December 1992, UNFPA had cash balances in convertible currencies and time-deposit investments amounting to $121.2 million, which included $48.0 million of the operational reserve, $2.5 million of the reserve for field accommodation and $11.0 million of trust funds.

11. She then drew attention to a detailed progress report, provided in document DP/1993/37, on measures taken to implement the recommendations of the Board of Auditors. She pointed out that the Executive Director's diligent efforts to obtain the timely submission of audit certificates and statements of expenditure from United Nations executing agencies, Governments, and NGOs, had resulted in an overall improvement in audit coverage for the 1990-1991 biennium, compared to the previous biennium. She further reported that by the time of the writing of the report (April 1993), the level of audit coverage of United Nations agencies executing UNFPA projects had reached 100 per cent, while that for NGOs was 88.5 per cent and that for Governments was 69.1 per cent.

12. Concerning financial controls, the Director, DFPA, stated that efforts had been made to ensure that the Fund's field office network had the financial and administrative capacities to carry out the decentralized programme authority entrusted to it. This included, in the 1994-1995 biennium, use of the services of UNDP's Roving Finance Officers and of the Regional Service Centre (RSC) established by UNDP on a pilot basis in Kuala Lumpur; the further training of UNFPA staff in financial matters both in the field and at headquarters; the installation of expanded automated systems; and the setting up of a separate section within the UNDP Division of Audit and Management Review to deal specifically with UNFPA's operations.

13. Further, she indicated that UNFPA had drafted two new financial regulations to address the need to establish the necessary legislation authorizing UNFPA to enter into new cost-sharing arrangements, and to provide procurement services on behalf of Governments and other United Nations agencies and organizations, which had been submitted to the Council in document DP/1993/63.

Summary of discussion in the Committee

14. Several delegations commended the Executive Director for the transparency, format, and presentation of the budget document. However, some delegations noted that the transparency of the document would have been enhanced if it had contained a revised budget for 1992-1993, and recommended that future budget submissions include a revised budget for the current biennium. One delegation commented that the basis for the cost increases reflected in the proposed budget was not adequately explained in the budget document, and requested more information on the inflation adjustment used in the preparation of the budget. Another delegation requested a breakdown by year, instead of by biennium, as was currently the case, in order to facilitate comparison with the performance of past years.

15. Several delegates expressed concern about the Fund's income projections, and urged the Executive Director to apply a more conservative growth rate to such forecasts in order to reduce the risk of having to delay or cancel programmes in future. Another requested information on how future currency fluctuations had been taken into account in the budget. Another cautioned that the anticipated income for the biennium included a large potential contribution from a former donor, although that donor had not been able to give assurances, that such a contribution was forthcoming. He therefore worried that the Fund's income would be substantially less for 1994-1995 without this contribution. One delegation requested information on which parts of its activities UNFPA would cut first if the projected income did not materialize - administration or programme.

16. Some delegations commended the Executive Director on her efforts to contain the level of administrative expenditures and, in particular, on the anticipated savings of US$ 7 million realized in the current biennium. However, several delegations expressed concern over the budgeted level of administrative expenditures in relation to the anticipated level of income, and requested information regarding whether any administrative expenditures were included under the technical support services (TSS) or administrative and operational services (AOS) costs reported in the income and expenditure statement of the Annual financial review (annex I of document DP/1993/36). It was pointed out that should the income projections turn out to be lower than anticipated, this could have a negative impact on the ratio of APSS expenditure to income. Thus, the Fund ought to develop contingency plans in case the anticipated resource projections were not fully realized.

17. Some delegations found the levels of administrative expenditures in 1992 too high in relation to programme expenditures and hoped that, with the increasing level of decentralization and implementation of management information systems, the ratio of General Service staff to Professional staff would decrease. Another delegation requested information concerning whether any field staff were being charged to project budgets, and another requested that clearly defined criteria be formulated to delineate administrative and programme expenditure.

18. Certain delegations expressed concern over the low programme implementation rates in 1992 and were interested in learning the reasons for it.

19. One delegation requested further information regarding the average daily balance of funds on deposit, how these funds were invested, in which currencies they were invested, and the rates of return obtained from them.

20. Some delegations noted with satisfaction the Fund's efforts to strengthen financial controls and expressed support for the actions taken to strengthen financial reporting, while urging the Fund to continue its efforts to improve financial control of nationally executed projects. One delegation recommended that the services of private auditors should be engaged and took note that the UNFPA Internal Audit Unit had only been implemented with some delay. It was also suggested that UNFPA should prepare a summary of auditors' reports on agency-executed projects, together with corrective action taken, for submission to the Governing Council, similar to that currently provided to the Council by UNDP.

21. Some delegations supported the proposal to upgrade six UNFPA Country Director posts from P-5 to D-1, although several shared the view expressed by the ACABQ that the budget document provided insufficient justification for these upgradings. It was noted, however, that upon receipt of additional information from UNFPA, the ACABQ had had no objection to this proposal. Some delegations also expressed concern over the relative seniority of these posts with respect to the Resident Coordinator and the Resident Representative in those countries for which the upgradings were proposed. Certain delegations seemed sympathetic to the needs of the Fund in this regard, though they expressed concern that these posts should not be transferable, as it was stated that, in the past, prior incumbents of D-1 posts had moved to lower level posts.

22. One delegation requested information regarding the respective roles of the UNFPA Country Directors and UNFPA Representative and asked what type of system UNFPA used to appraise the performance of its staff.

23. There was general consensus among delegations on approving the proposals to upgrade six International Programme Officer posts from the P-3 to the P-4 level and to redeploy two headquarters posts to the field. Most delegations endorsed the proposal to downgrade the three senior management posts at headquarters, although one delegation requested further clarification on the matter.

24. The Executive Director's proposals in connection with MIS and staff training were generally supported by the delegations, as was the proposal to add 35 new local posts in the field, and the proposal to establish a field office in Eritrea which also contributes to the Secretary-General's efforts to bring about a unified United Nations presence there. However, with regard to the 35 new local posts, some delegations indicated that should the anticipated resources not materialize, the Executive Director may need to reconsider her APSS budget proposals.

25. One delegation requested the administration to provide an update, if any were available, on recent developments concerning the leasing arrangements for headquarters' premises and the possibility of the Fund obtaining real estate tax relief.

26. One delegation requested information on whether it would be possible to ensure that the Contraceptive Requirement and Logistics Management Unit would

continue its activities beyond 1994, the time at which its original funding arrangement ran out.

27. One delegation requested information concerning what steps had been taken to ensure that the work being undertaken by the Fund in respect of the International Conference on Population and Development (ICPD) would not negatively impact on the normal work of the Fund.

28. One delegation expressed support for the proposal to amend the Fund's Financial Regulations concerning reimbursable procurement arrangements, while another proposed further revisions to Regulations 4.12 and 4.13. Another delegation questioned whether the income derived from procurement activities should be treated as miscellaneous income or be used to offset APSS expenditures. Other delegations asked what effect the proposed revisions concerning cost-sharing would have on the level of project funding.

Response of the administration

29. The Executive Director thanked the delegations for their comments on the various proposals before them. She expressed the hope that upon further discussion the BFC would find it possible to support the upgradings of six CD posts from the P-5 to the D-1 level. She underlined the importance of these upgradings within the context of the Fund's efforts to strengthen the field offices and to effect increasing decentralization.

30. With regard to the format and presentation of the budget, the Director, DFPA, stated that ways and means of improving the clarity of the information presented were always open to review and, in this connection, thanked the delegates for their helpful suggestions.

31. Regarding the concerns expressed by several delegations over the ratio of the APSS budget to programme expenditure, the Director, DFPA, pointed out that UNFPA had succeeded in arranging savings within the current biennium in the amount of at least US$ 7 million. The efforts were continuing at present in order to have available the largest amount of resources possible for programme purposes. She further indicated that in the future UNFPA would certainly adjust its APSS budget and keep it in line with actual income. At the same time, the present organizational capacity of the Fund must be safeguarded against short-term shifts in income levels and programme expenditure ratios. She emphasized that the current organizational capacity had been built up consistently by the Executive Director over several years in order for UNFPA to carry out its mandate effectively. For this, a critical mass in the organization was absolutely essential. She stated that to go below this level would unduly damage the organization's ability to carry out its responsibilities both in quantitative and qualitative terms.

32. Within this context, she also addressed the concerns expressed by some delegations on the headquarters/field staffing proportions by analysing the historical trend in the ratio of headquarters/field staffing. She pointed out that in the past six years UNFPA had substantially reduced the proportion of UNFPA staff at headquarters, from 40 per cent of the total staff in 1987 to 29 per cent today. That percentage was continuing to fall. In this connection, she mentioned that UNFPA was responsible not only for programming population

assistance, but also for creating global awareness and that UNFPA headquarters in particular had had a significant role to play in both these areas.

33. With reference to a query as to possible cost savings as a result of office automation, she further noted that the number of General Service staff at headquarters had increased by only six persons since 1987. As referred to in the proposed 1994-1995 budget (DP/1993/35), the productivity of General Service staff had greatly increased since 1987. Without this increase in productivity, the requirements for such staff would have been substantially higher.

34. The Director, DFPA, commented that UNFPA had reported on the delineation between administrative, programme support, and programme expenditures in document DP/1986/42, which was approved by the Governing Council in decision 86/35, paragraph 8 and that the guidelines were still in effect. Furthermore, in answer to a question on the new TSS and AOS arrangements, it was indicated that these arrangements were initiated in January 1992 when the new support-cost structure became operational, in accordance with decision 91/37. She also stated that she was not aware of any cases of field staff being charged to project budgets, but promised to look into this matter.

35. In reference to delegations comments on the programme implementation rates in 1992, the Director, DFPA, responded that these rates were a result of several factors: the Fund's cautious attitude towards the programming of resources in view of its overexpenditure on programmes in 1992; the slow start-up of a large number of new country programmes; the introduction of a new system of support-cost arrangements; unexpected exchange gains in contributions arising late in the year, as well as other factors. She added that UNFPA would have no problems in utilizing these unused funds in 1993 and, therefore, the programme implementation rate would be more favourable in that year.

36. The Director, DFPA, indicated that the issue of the ratio of APSS to programme expenditure should be examined over a number of years, rather than focusing on a one-year basis. She mentioned that the situation might improve in 1993, particularly in view of the substantial carryover from 1992 to 1993. This had raised the ratio in 1992, but would have the opposite effect in 1993 if the resulting available programme funds were utilized as expected.

37. Responding to the concerns of some delegates in regard to the inflation assumptions used in the budget, the Director, DFPA, stated that should the actual levels of inflation during the biennium exceed the levels assumed in the budget, then UNFPA would respond by cutting both administrative and programme expenditures, but with particular emphasis on safeguarding programmable resources as much as possible. She added that the inflation assumptions used in the preparation of the 1994-1995 budget had projected 4 per cent inflation for headquarters costs and 6 per cent for field office costs.

38. In response to the question raised concerning UNFPA cash balances, the Director, DFPA, mentioned that UNFPA's unspent resources were invested and managed by UNDP and that details pertaining to the average balances on these accounts would be provided to the delegation that made the inquiry.

39. As requested by several delegations, the Director, DFPA, provided the criteria used for designating the level of UNFPA Country Director posts. She

also provided additional information concerning the appraisal system of staff members and described the Fund's new Performance Appraisal Review (PAR) system. The Director also pointed out that since 1987 the decentralization of approval authority and national execution had gathered pace. Consequently, a UNFPA Country Director was required to discharge a number of complex and sensitive responsibilities. These included, among others, providing policy advice at the highest levels; coordinating population assistance; providing technical expertise; serving as an advocate on population issues; managing the development, monitoring and evaluation of population programmes and, finally, administering a field office. She also indicated that, in those field offices for which UNFPA had proposed to upgrade the post of Country Director, the Country Director post at the D-1 level would not be higher than the post of the Resident Coordinator. In response to the direct request of several delegations and in order to put the UNFPA proposal in proper perspective vis-à-vis other United Nations agencies, the Director informed the delegations that currently over 28 per cent of the heads of UNICEF field offices were at the D-1 level and 24 per cent were at the D-2 level. For UNDP, the majority of its heads of field offices were at the D-1 level and 24.3 per cent were at the D-2 level. If the Fund's proposals were approved by the Governing Council, only 20 per cent of the heads of UNFPA field offices would be at the D-1 level and none at the D-2 level.

40. In answer to the question concerning the transfer of D-1 posts when the incumbent was reassigned, the Director, DFPA, commented that the original six D-1 posts had not been transferred and were still based in Bangladesh, China, Ethiopia, India, Kenya, and Thailand. The new D-1 posts being proposed were for Egypt, Mexico, Nigeria, Pakistan, the United Republic of Tanzania, and Uganda. These posts, as for all posts in the Fund, were not transferable. Nevertheless, she observed that, in 1987, at the time of the approval of the six existing D-1 posts, it was understood by the BFC and UNFPA management that it would not always be possible to restrict the assignment of D-1 level staff to these six posts. However, with an additional six posts, it would be easier to maintain the assignments to the approved D-1 duty stations.

41. Commenting on the downgrading of the three senior management posts, the Director, DFPA, stated that these proposals had been included in the budget upon the request of the United Nations Secretary-General in the context of his restructuring plans. At the same time, the upgrading of the six D-1 posts in the field had also been submitted to, and found acceptable by, the Secretary-General as in keeping with his efforts towards further decentralization and the strengthening of field-office activities.

42. Commenting on the establishment of an office in Eritrea, the Director, DFPA, mentioned that UNFPA was acting within the framework of the Secretary-General's efforts to ensure a unified United Nations presence there.

43. On the subject of the leasing of headquarters premises, the Director commented that the current UNFPA headquarters lease would run out at the end of 1995. However, negotiations on the renewal of the lease had not yet commenced due to the ongoing discussions concerning the possible relocation to Bonn, Germany. With reference to the tax issue, it was mentioned that the United Nations Secretariat was organizing a meeting this month to discuss, inter alia, this and related matters with relevant parties.

44. With reference to the Contraceptive Requirement and Logistics Management Unit the Director replied that, for the time being, UNFPA intended to continue these activities as a project, and that its status would be reconsidered in the future in the light of the funding situation and other factors.

45. In response to the question raised by one delegation concerning the effect of the ICPD on the normal work of UNFPA, the Director stated that the ICPD had its own secretariat separate from that of UNFPA. Nevertheless, some staff members, for example, the Executive Director, performed functions for both the ICPD as well as the Fund. She added that staff members with such dual roles would be working yet harder than they normally do in order to fulfil both duties.

46. Referring to the proposed revisions to the financial regulation on procurement, the Director, DFPA, stated that the approach with regard to procurement income was in line with the recommendations of the Fund's external auditors. Additionally, it was stated that, since the new cost-sharing arrangements were supplementary to those already established, it was anticipated that the introduction of such arrangements would have a positive effect, if any, on project funding.

Recommendation of the Committee

47. Following its consideration of the subject, the Budgetary and Finance Committee recommended that the Governing Council adopt the following draft decision:

Financial Regulations

The Governing Council,

Having considered the report of the Executive Director on the proposed revisions to the Financial Regulations of UNFPA (DP/1993/63);

Approves the following Financial Regulations:

Article V - TRUST FUNDS

Regulation 5.4: Funds received by UNFPA under Regulation 14.6 for procurement of supplies, equipment and services on behalf and at the request of Governments, specialized agencies or other intergovernmental or non-governmental organizations shall be treated as trust funds.

Article XIV - INTERNAL CONTROL

Regulation 14.6: Supplies, equipment and services may be provided by UNFPA under procurement arrangements on behalf and at the request of Governments, specialized agencies or other intergovernmental or non-governmental organizations, where such supplies, equipment and services are required for purposes related to UNFPA activities and are consistent with the aims and

policies of UNFPA, on the basis of full payment in advance of the procurement activities, to cover all costs, including insurance and service fees, connected with the procurement of such supplies, equipment and services.

Article II - DEFINITIONS

Regulation 2.2 (vi): "Cost-sharing" shall mean an arrangement by which the costs of projects that are normally charged to UNFPA regular resources, including the reimbursement of the related administrative and operational service costs paid to executing agencies, are covered in full or in part by a contribution or contributions from the recipient Government, or from one or more Governments other than the recipient Government, or from an organization or organizations of the United Nations system, or from intergovernmental institutions or agencies not part of the United Nations system. Such arrangement may be made on the following basis:

- Project cost-sharing whereby the contribution relates to a specific project;

- Programme cost-sharing whereby the contribution relates not to a specific project but to all or several projects in a recipient country or region; and

- Third-party cost-sharing, which can be either project or programme cost-sharing, whereby the contribution is paid by one or more entities other than the recipient Government.

Article IV - UNFPA FUNDS

Regulation 4.12: The Executive Director is authorized to enter into project, programme and/or third-party cost-sharing agreements, provided that such cost-sharing arrangements have been accepted by the recipient country or countries, subject to such principles as the Governing Council may establish.

Regulation 4.13: Cost-sharing agreements and contributions thereunder shall be subject to the following conditions:

(a) Contributions would be denominated for accounting purposes in United States dollars; however, UNFPA would accept payment in the local currency of a recipient Government to the extent that such currency could be used to meet project expenditure requirements;

(b) Contributions would be paid pursuant to a written agreement made between the contributor and UNFPA. Such agreement would specify that the contributions should be paid in advance of the implementation of planned activities. All third-party contributions would be accepted subject to the agreement of the recipient Government.

(c) In case of default in making the payments required under subparagraph (b) above, UNFPA would be under no obligation to provide funds from its regular programmable resources for any of the activities planned under the cost-sharing agreement.